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### From solidarity to selectivity

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# **10 From solidarity to selectivity: the reconstruction of the Dutch social security system 1980 - 2000**

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## **Introduction**

Since the introduction of a national law on industrial injury benefits in 1901, a social security system has taken shape in The Netherlands that can be ranked among the most highly developed in the world. Even in a Western European context, it is known as all embracing, generous and solidaristic. However, since the economic crisis of the late 1970s and early 1980s, it has experienced a process of almost continuous reconstruction. In this, the Netherlands does not differ from many other European countries which, as Ferge (1997) has argued, have seen the rise of a new welfare paradigm, best characterised as 'the individualisation of the social'. In the wake of economic globalisation this 'cult of individual responsibility' has led to a fundamental transformation of social provision. Access to universal protection schemes has been

reduced, solidaristic social insurance programmes replaced by individualistic, market-led private insurance, and social assistance more strictly targeted on the really needy.

This chapter will consider the Dutch variant of this common trend. It begins with a brief review of the historical development of the social security system, outlining its underlying principles and basic structure. It then looks more closely at recent attempts to reconstruct the system, their implications, and the extent to which the Dutch social security system has undergone a shift from solidarity towards selectivity (1).

### **A history of collective solidarity**

The roots of the Dutch social security system lie in the late nineteenth century. As the social consequences of industrialisation became apparent, fears of social disruption together with increasing claims for poor law support, gave rise to the conviction that measures protecting people against social risks were necessary. However, as was typical for that time, the idea was that government should intervene as little as possible. Instead of tax-based national schemes, a programme of contributive social insurance schemes was introduced. The government's role was not to organize such schemes, but to stimulate their development and viability by making contributions compulsory. In this way, during the period between 1901 and the Second World War, a number of schemes were introduced covering the risks of industrial injuries, invalidity, sickness and old age. All were confined to waged workers, reflecting the broadly accepted principle of the 'just wage'. This held that remuneration should cover situations in which a worker would not be able to work because of factors beyond his or her control. In other words contributions for social insurance were seen as a legitimate part of the wage-cost. Compulsory social protection for the self-employed, however, was pre-empted, partly because of the cost, but primarily by the lack of a sufficiently accepted legitimizing principle.

The pre-Second World War schemes were organized at company level or through separate sectors of industry, not at the national level. The social security system as a whole was patchy and had a limited degree of collectiveness. It also had a limited degree of redistributive solidarity. Since the schemes closely followed the logic of private insurance, particularly bad risks were excluded and contributions strongly risk related, resulting in little cross-subsidisation of bad risks by good risks and of lower paid workers by the higher paid. Generally, benefits were low and in many cases did not reach subsistence level. Heavy state contributions to the social insurance funds were often necessary to guar-

antee benefit payments and levels and there were still many claims for poor law support. Cases not eligible for this had to rely on the churches and charities.

After the Second World War the Dutch social security system expanded rapidly. Inspired by the inadequacies of the pre-war system, hopes for a new and better society and, not least, the Beveridge Report, the Van Rhijn Commission presented its blueprint for a new system in 1945. Significantly, the legitimizing principle for social security was broadened from 'the just wage' to the idea that:

society, organized in the state, is liable for the social security and protection against want of all its members, on the condition, that citizens themselves do all that can be reasonably expected in order to acquire such security and protection' (Van Rhijn, 1945, p.4).

This principle opened the door for a system that encompassed all citizens, not just waged workers.

In the years after the Van Rhijn report a number of so called 'people's insurances' were introduced, providing old age, death (survivors) and disability benefits for all citizens. These schemes were both highly collectivised, in the sense that they were designed and controlled by the state, and 'solidaristic': bad risks were not excluded and contributions were proportional to income not risk. In specific cases people could claim benefits even if they had never paid a contribution. The new principle also allowed for the construction of a national safety net, or social assistance scheme, which replaced the inadequate poor law. Social assistance became strongly centralized after the first years of its existence revealed that a high degree of local discretion led to unacceptable inequalities in the rights of citizens.

With respect to workers' insurance, it is important to note that the new principle broadened the state's responsibility and led to a national unemployment insurance scheme for waged workers, as well as the collectivisation and 'solidarisation' of schemes covering the risks of industrial injury, invalidity and sickness. As for the first, the funds were merged into national schemes, with provisions harmonized and ultimately replaced by uniform, national schemes. As for the second, entitlement conditions were broadened to encompass larger populations of insured workers; bad risks were no longer excluded and contributions levied as a percentage of the wage and no longer related to differences in risk. These new schemes and regulations mostly took effect in the 1950s and 1960s, creating extensive horizontal, as well as vertical solidarity in the Dutch system of social security. With good

risks in effect paying for bad risks and higher earners for those on lower incomes, different generations, professional groups, social classes and categories of risk were 'connected' to each other.

The process of collectivisation and 'solidarisation' was boosted in the 1960s when the Christian-Democrat, Veldkamp, became Minister for Social Affairs. Possibly encouraged by the economic prosperity of those years, he formulated a new, broader legitimizing principle for social security, holding that 'every citizen has a right to self-realization and to equality of chances' (TK 1962/63). This principle had its strongest effect on the new disability schemes constructed during this period. It stressed the general, societal character of social risks and the mutual responsibility citizens therefore have for each other's life chances. It regarded the right to social security as universal and unconditional, and thus lacked the element of reciprocity which formed the basis of Van Rhijn's legitimizing principle.

With the final implementation of the revised disability insurance for all citizens in 1976, this period of expansion, collectivisation and 'solidarisation' came to an end. Veldkamp's principle started to lose its appeal as the effects of the first oil crisis were felt and the economic optimism of the 1960s gave way to caution, followed by pessimism and ultimately, a deep crisis in the late 1970s and early 1980s. The government's response will be discussed in the next section. But to fully assess the significance of these developments it is first necessary to understand the basic features of the Dutch social security system as it had developed up to the late 1970s.

In essence it comprised three schemes (whose structures remain intact, despite the revisions of the last decade)(2). First, there are the so-called people's insurances, covering the demographic risks of old age (AOW), survivors (AWW) and child benefit (AKW), as well as long-term disablement (AAW). These are compulsory, contributory, and non means-tested national insurance schemes to which all citizens are entitled. Waged workers and the self-employed pay contributions that are proportional to income; benefits are paid at a flat rate subsistence level (in practice the level of the statutory minimum wage).

Secondly, there are the so-called *workers' insurances*, covering unemployment (WW), long-term disablement (WAO) and sickness (ZW). These schemes are also compulsory, contributory and non means-tested, but are confined to employees (with the exception of civil servants, for whom there are separate schemes). Contributions are paid as a percentage of wages, while benefits are wage-related. Finally, there is the safety net of *social assistance* for all citizens. Social assistance is non-contributory and

paid from general taxes. It is means-tested, with tests on the assets and incomes of claimants and their partners. Benefits are up to subsistence level.

It is important to note that the level of all non wage-related benefits is linked to the level of the statutory minimum wage, which in turn is adjusted yearly according to shifts in wages and prices. This ensures that beneficiaries share in growing overall prosperity and are protected against the effects of monetary inflation.

### Reconstruction

The collectivist, solidaristic system had its heyday between the late 1960s and the early 1980s. Since then it has been under permanent reconstruction. The reasons for this differ between the various schemes and their general character has accordingly changed in different ways. Here we will sketch the main developments.

Of first and crucial importance was the steady increase in claims for insurance benefits and social assistance in the 1970s and the alarmingly steep rise in the numbers dependent on unemployment benefits and assistance between 1978 and 1982. As Table 1 shows, the numbers claiming unemployment benefits doubled from 1970 to 1978, and doubled again between 1978 and 1982, while the number of social assistance beneficiaries increased in the first eight years by 100,000, and by more than 250,000 in the next four years. Disability claims showed a steadier, but by no means less significant, growth. Due to the broad definition of disability, based on Veldkamp's universal principle, the scheme had low access thresholds and attracted many older workers who, under more stringent entitlement criteria, would have been laid off and become unemployed. In other words, the number of beneficiaries under the disability scheme masked a large pool of 'hidden' unemployment. The number rose steadily, from 215,000 in 1970 to 707,000 in 1982.

For many contemporary policy-makers, the lessons of the economic crisis were clear: the system was overloaded and might eventually collapse. The initial reaction was to try to control social expenditure by reducing the duration and level of benefits. This approach was known as 'price' policy, because it was mainly directed at keeping the system affordable. However, by 1990 the number of workers' insurance beneficiaries had increased by over 300,000, more than offsetting the decline in social assistance claimants over the same period. Subsequently the emphasis shifted to 'volume' policies aimed at reducing entitlement and controlling the inflow of beneficiaries.

The reconstruction of the people's insurances was, however, not simply the product of economic developments. It also reflected broader changes in Dutch society and culture. One aim was to make provisions more consistent with the changing roles of men and women, particularly women's increased labour force participation. Here 'modernization' resulted in equal rights for men and women in all schemes. The 1980s saw improvements to women's state pension rights and the 'individualisation' of benefits paid to members of one household with the husband and wife each being paid 50 per cent instead of a 100 per cent for the man). Rather belatedly, in 1996, widowers were granted the same rights as widows to the state survivors' scheme. Despite pressure from women's movements, this process of individualisation has not yet, however, been extended to social assistance. Here individualisation would have entailed not only the abolition of the test on a partner's means, but also a dramatic increase in social assistance expenditure. While budgetary and economic arguments were not robust enough to prevent some improvement in rights to pension and survivor's benefits, they played a crucial role in shaping reconstruction. 'Modernisation' resulting in a broadening of entitlements conflicted with the wider aim of cutting back on social expenditure. The solution was that means tests were introduced to keep total expenditure under control.

There is no doubt that these measures contributed to halting the growth in beneficiaries and social security expenditures. The system's collapse was prevented. On the other hand, it is clear that at present there is no prospect of a substantial decrease in demand and expenditures. Table 1, for instance, shows that in 1994 only claimant numbers for sickness benefit and social assistance have dropped significantly since 1986.

**Table 1: Numbers receiving benefits (in '000's)**

	Peoples insurances			Workers insurances			Social assistance
	Pension AOW	Survivors AWW	Child Benefit AKW	Unemp. WW	Disability AAW/WAO	Sick ZW	ARW RWW
1970	1061	154	1614	25	215	223	318
1974	1171	162	1734	56	313	261	423
1978	1280	169	1763	48	579	289	419
1982	1376	172	2185	112	707	261	684
1986	1898	173	2113	68	778	263	740
1990	2043	195	1812	163	881	348	530
1994	2152	194	1812	332	894	175	519

Source: Ctsv, 1995 p12

Table 2, showing social security expenditure as a percentage of the net domestic product, confirms that the late 1970s and early 1980s were the years in which expenditures exploded. But it also shows that the decrease since has been slow.

**Table 2: Social security expenditure as % of Net Domestic Product**

Year	% of NDP
1970	12
1975	16
1980	20
1983	22
1990	18
1994	18

Source: Ctsv, 1995 p15

A similar pattern can be seen in Table 3, which shows the so-called I/A ratio: the number of beneficiaries ('inactives') per 100 workers ('actives'). There is a steady increase during the 1970s, with acceleration from 1980 to 1985, but the ratio decreases only slowly after that, even if accounted for by the 'greying' of Dutch society.

**Table 3 I/A Ratio (number of beneficiaries per 100 workers)**

Year	Pensioners included	Pensioners Excluded
1970	46	16
1975	58	24
1980	68	32
1985	84	44
1990	82	42
1995	83	42

Source: SCP, 1996 p150

Viewing such data, the government came to realize that its initial 'price' policy and the subsequent 'volume' policy were not enough to reduce social security expenditure substantially, nor to solve the problems of economic inactivity amongst a large section of the population. Gradually, therefore, it has developed a new concept of social protection, the core of which seems to be a fundamental critique of the model of collective solidarity itself. Changes to the system were no longer justified purely on budgetary and economic grounds, but more and more in the belief that principled change was essential. This new approach was first formulated in a government paper on the distribution of social security respon-



sibilities between state and its social partners (TK 87/88). They were subsequently elaborated (e.g. in a strategic policy paper from the Ministry of Social Affairs (SZW 1991) and reiterated in the report of a parliamentary inquiry into the administration of social insurances (TK 92/93) as well as in the proposals of the Dutch Scientific Council for Government Policy (e.g. WRR 1994).

These sources suggest that the main objection of politicians and policy-makers to the model of collective solidarity is its anonymity. The national and collective nature of the system is held to undermine individual responsibility and promote calculative behaviour by all actors involved, be it citizens, workers, employers, unions or companies. The prevention of unemployment, sickness and disability as well as the reintegration of disabled and unemployed workers has been neglected because it is in nobody's interest. This 'modern carelessness' (Schuyt, 1995) in fact means that moral hazard, broadly defined, is seen as the core problem of the model of collective solidarity. In this view the main reason for the high demand for protection, and the associated drain on the public purse, is an obscure and failing structure of responsibilities and obligations allocated to the different actors involved. According to this diagnosis, public dependency can only be countered by the introduction of market disciplines and the re-establishment of freedom of choice and risk differentiation. These would secure individual responsibility by way of confronting all actors more directly with the costs of social protection. This diagnosis is also the starting point for 'activation' policies aimed at the (re-) insertion of beneficiaries into paid and even unpaid work.

A second criticism of the model of collective solidarity, central to the above reports, is that it is inconsistent with modern relations between the state and citizens. Social security is thus touched by a general trend towards decreasing the role of government in society: government should confine its interventions to guaranteeing minimum income protection, while individuals and social groups should organize supplemental protection at the individual or semi-collective level.

Thus the Dutch political discourse on social security is no longer dominated by Veldkamp's universal and unconditional principle, but by notions of individual responsibility, conditionality, minimum protection and the logic of market-led private insurance. In short, the reconstruction of the Dutch system of social security has been led in the first instance by economic concerns and, to a lesser extent, by culturally based arguments, with reform proposals increasingly justified in terms of what are presented as the fundamental flaws of the model of collective solidarity. Let us now look in more detail at what has happened to the various schemes.

## People's insurances

The universal state insurance schemes have become both more selective and more complex since the early 1980s. Implementing equal rights for men and women, in the context of a declining welfare budget, has meant the introduction of means tests in the old age and survivors schemes, whilst child benefit, though still not means-tested, now offers less protection, especially for larger families.

### *Survivors Insurance*

The reconstruction of the survivors' insurance scheme (AWW) began in the second half of the 1980s but only resulted in the new ANW in 1996. The ANW tackles a number of problems associated with the old AWW which were primarily attributed to various socio-cultural developments. The main problem was that AWW was designed for those situations, predominant in the 1950s, in which the male partner is the breadwinner. This implied both that widowers were not entitled to the benefit (they would still have their own income if their partner died) and no means testing (widows by definition were needy since none would have an income of their own). However, the changing roles of men and women and the latter's increasing labour force participation has undermined the male breadwinner model. A second problem was that AWW was designed for married couples, implying that survivors of unmarried couples were not entitled to the benefit. Unmarried cohabitation, however, has become a common and accepted pattern in the Netherlands, resulting in pressure to extend the coverage of the survivors' scheme to unmarried couples.

Under the 1996 ANW, males and unmarried couples are entitled to receive benefits, but to allow for the increased labour participation of women, eligibility was otherwise substantially curtailed. Most importantly, for survivors with no dependent children under eighteen who were not disabled, entitlement was confined to those born before 1950 (younger people are supposed to work and have an income). Secondly, recognition of the fact that widowhood did not automatically entail 'need' combined with pressure to reduce expenditure, led to the introduction of a means test. Unlike AWW the new ANW benefit is clearly intended only for those widows and widowers who are not able to earn a living and the number of beneficiaries is likely to drop substantially (from some 190,000 at present to some 25,000 by 2015). This is mainly due to the fact that by 2015 most of the potential claimants will be sixty-five and thus entitled to old age pensions.

With its means test and sharp cuts in coverage the ANW thus deviates strongly from the traditional Dutch idea of universal people's insurance and what remains of social protection for widows looks very much like a social assistance scheme for a specified category.

### **Old age Insurance**

The 1957 old age insurance scheme (AOW) was very much a child of its time in the sense that, like the survivors scheme, it was designed around the male breadwinner. Its adjustment, in 1985, recognized women's changing roles, particularly their increased labour force participation and was strongly influenced by the Third EC Directive on equal treatment of men and women in social security. Under the 1957 scheme if a husband reached the age of sixty five before his wife he received a benefit equal to a 100 per cent of the minimum wage, but woman who became sixty five before their husbands were not entitled to anything, while single people received a benefit of 70 per cent of the minimum wage.

These anomalies were removed in 1985 when the right to AOW was 'individualized', with each partner gaining a right to 50 per cent of the level of the minimum wage. (As a result the number of beneficiaries increased substantially; see Table 1.) In 1987 the scheme was adjusted further to take into account the fact that cohabitation among pensioners had become a widely accepted reality. Under the revisions married and unmarried couples were to be treated equally. In 1988, however, a means test was introduced for cases in which the partner is under sixty five, the test being on the partner's income, not that of the pensioner. For pensioners with partners under sixty five the level of the individual benefit is now 50 per cent of the minimum wage, which can be supplemented by a maximum of another 50 per cent, depending on the partner's income.

As elsewhere in Europe, concern over the potential welfare costs of a 'greying' society (prognoses are that by the year 2020 nearly 25 per cent of the population will be over sixty-five) means that the AOW scheme is still subject to controversy. Various proposals have been mooted, ranging from increasing citizens' contributions and/or the pensionable age to introducing substantial state subventions. But, as yet, proposals to extend means testing to pensioners remain politically taboo.

### **Child benefit**

The 1963 child benefit scheme (AKW) has been repeatedly adjusted over the last twenty years in various major and minor ways. The overall trend, however, has been one of reductions in both coverage and benefit levels, both aimed at and producing a decrease in public expenditure. In 1986, for instance, child benefit for eighteen to twenty seven year olds was abolished, while, in 1992, sixteen and seventeen year olds employed under the Youth Work Guarantee Scheme (JWG) also lost their entitlement. Since 1983 benefit levels, which, initially were independent of a child's age, have been revised, leading to lower benefits for younger (less costly) children. Further cuts came with the abolition of the progressiveness of benefits in 1995. Until then the level of benefit per child was higher the more children there were in a family. As a result of these measures social protection, particularly for larger families, has diminished substantially.

### **Workers Insurances**

In 1985, soon after the economic crisis of the late 1970s and early 1980s reached its peak, the benefit levels of all the workers' insurance schemes (unemployment, disability, sickness) were reduced from 80 to 70 per cent of claimants' previous earnings. Further reform measures followed in two major phases. The first took effect in 1987 and encompassed all schemes; the second introduced between 1992 and 1994 concerned the sickness and disability schemes.

### **Unemployment**

In 1987 the 1949 unemployment insurance scheme (WW) was replaced by new legislation, the most important feature of which was the introduction of more stringent work history requirements for determining both entitlement and the duration of benefit payments. Under the new WW, claimants have to have worked at least twenty six weeks (in stead of only 130 days) in the previous fifty two. The wage-related benefit was limited to half a year on principle after which it is replaced by a non means-tested flat rate benefit paid at 70 per cent of the minimum wage level for one year. (The half-year wage-related benefit could be prolonged if individuals had a longer employment record, i.e. if they had worked for at least three years in the last five). Those who remain unemployed then have to claim means-tested social assistance. Eventually then, all the long-term unemployed will end up on social assistance. In 1995, when unemployment figures had increased again (see table 1), the eligibility criteria were further tightened. Entitlement became conditional on a combination of

having worked twenty six weeks in the last thirty nine instead of fifty two and the right to the prolonged wage-related benefit now depends on having worked four out of five years instead of three out of five.

These changes mean that adequate protection against the financial consequences of unemployment has become increasingly confined to workers with regular and longer lasting labour market ties. Other groups experience more difficulty in gaining entitlement to a wage-related benefit, especially the young, people with flexible labour contracts and people with repeated unemployment spells. Currently some 45 to 50 per cent of the working population cannot meet the combined criteria of twenty six weeks out of thirty nine and four years out of five. In the case of unemployment these workers will have to rely on social assistance, either immediately or following a short period in which they are entitled to the non means-tested flat-rate minimum benefit.

### **Disability**

The 1967 disability insurance scheme (WAO) was also revised in the 1987 restructuring. Here the most important change was the abolition of the provision whereby disability benefit compensated for the poor labour market opportunities experienced by partially disabled workers. Up to 1987 partially disabled individuals without a job received a full wage-related disability benefit for as long as their disability lasted, on the premise that their chances on the labour market were nearly zero. It was this system, combined with the unlimited duration of the WAO benefit, which made WAO much more attractive than the unemployment scheme, WW.

From 1987, however, partially disabled workers without a job became entitled to a partial, instead of a full, wage-related disability benefit, and an unemployment benefit (WW) in respect of their unemployment. For many partly disabled workers this meant a substantial reduction in income. As Table 1 shows these measures did not, however, prevent a further increase in the number of disability beneficiaries, concern over which led to further legislation in the early 1990s. First in 1992, the 'law on reducing the disability volume' (TAV) introduced stronger incentives for employers to prevent claims for disability benefits. It established a 'bonus-malus-system' giving employers a subsidy if they employ a disabled worker for at least a year. In addition to this once-off subsidy, a 20 per cent wage subsidy is also provided. But employers have to pay a fine or 'malus' if one of their employees is disabled at work and has to be fired. The fine turned out to be both very unpopular with employers and difficult to implement and as a result was abolished in 1996.

In 1993 a second 'law on reducing disability claims', the TBA, was introduced, again reducing the 'attractiveness' of disability compared to unemployment insurance. Firstly, the benchmark for assessing the degree of disability was changed. This used to be the degree to which incapacitated workers could continue to earn a living with 'suitable work', defined as work appropriate to an individual's educational level and former type and level of job. This was broadened to 'generally accepted work', not connected with educational or former job levels. As a result more jobs are regarded as in principle being available for the disabled, making it more difficult for any worker to be assessed as incapacitated for work. Secondly, every existing beneficiary of the WAO benefit under fifty had to be re-assessed according to the new standard. In the first two years after its implementation this rule resulted in a withdrawal of the full WAO benefit in 50 per cent of all reassessed cases. Such individuals were declared to be fully unemployed, instead of being (partially) disabled, and had to claim WW benefit, with its limited duration. Thirdly, age was introduced as a criterion for determining the level and duration of benefit. Rather being fixed at 70 per cent of previous earnings for as long as the incapacity to work lasts, the WAO benefit is set for a maximum of six years for those over the age of 58, after which they become entitled to the state pension (AOW). Benefit duration for younger is shorter than these six years.

As Table 1 shows these 'volume' policies of the early 1990s did not produce the hoped-for decline in beneficiaries. In a further attempt to stem the WAO inflow, the government has recently introduced another reform aimed to foster employer responsibility for the prevention of disability as well as the (re-)insertion of disabled workers, the 1998 PEMBA law. This involves two new measures, premium differentiation and opting out or privatisation. Before PEMBA contributions for the WAO scheme were not differentiated according to risk, i.e. to the number of disability claims coming from individual firms and sectors of industry. All paid a uniform percentage of wages. Under PEMBA such percentages, and thus the amount of contributions, are differentiated according to risk. As a result, firms and sectors of industry that generate more disability claims have higher costs and thus an incentive to prevent disability claims, either by improving working conditions, or by adapting work places for disabled employees. PEMBA also offers individual firms the opportunity to opt out of the state system and take responsibility for providing disability protection and benefits for their employees. (Some large companies have already chosen to 'opt out', but the first signs are that only few will follow).

### **Sickness**

The revision of the sickness benefit scheme (ZW) started in 1994, prior to which benefits for workers who were ill for less than a year (after which period the disability scheme came into force) were paid from the collective sickness fund for the full period. The fund was financed by contributions from employers and employees. The relation between degree of sickness absenteeism and costs of insurance was weak since contribution levels only differentiated between branches of industry. Thus, at the level of individual firms and workers, incentives to prevent sickness were minimal. This changed with the 'law on reducing sickness absence' (TZ) introduced in 1994. This obliged employers to pay sick of at least 70 per cent of their wage for the first six weeks of absence (two weeks for companies with less than 15 employees). Thus, the first weeks of sickness were privatized and ceased to be a drain on the national sickness fund. Employers either paid wages for sick employees directly, or, more commonly, reinsured the risk with private insurance companies. Reducing sickness absenteeism was further promoted by a second element of TZ which obliged every firm to institute a sickness absence prevention and control policy. In 1994, another revision was also implemented - as a result of the earlier mentioned TAV law. This introduced differential contributions for sickness benefit according to industry sectors, with firms with a higher absenteeism than their sector's average paying higher contributions.

The TZ, especially the part concerning privatisation of the first weeks of sickness benefit, had an immediate and significant effect on the national sickness fund. In 1993, 345,000 sickness beneficiaries were paid compared to only 175,000 in 1994. By 1994 the percentage of reported absenteeism had dropped from 7 to 4 1/2 of total labour time and has stayed at this lower level since (Ctsv, 1995, p.65). Although there is a natural floor to this percentage, the government hoped that further privatisation would lead to another drop in absenteeism. 1997 saw the implementation of legislation to this effect, under the WULBZ law, which extended the period in which employers had to pay wages to sick personnel to one year. ZW still covers the sickness risk of specified categories (estimated at 15 per cent of the previously covered population), such as pregnant women, (partially) disabled workers, people on temporary contracts and apprentices. But for the majority of Dutch workers ZW has, in effect, been abolished and replaced by the employer's duty to provide for their employees during sickness leave.

The privatisation and differentiation of contributions according to risks in both the disability and sickness schemes have, as was anticipated, been matched by falls in the annual growth in WAO disability claimants and a decline in the numbers claiming sickness benefits (Table 1). However, these improvements to the public purse have had not been without their costs, particularly in terms of the labour market chances of people with health problems. Evaluation studies (discussed in SCP 1996) have shown that the chronically ill and (partially) disabled face increased difficulties in (re-)entering work. Employer health screening of potential employees has become more stringent, whilst the likelihood of workers with a worse health status being made redundant has increased. The use of temporary labour contracts as a means of prolonging the period for screening employees' 'sickness leave behaviour' nearly doubled (from 1993 to 1995 from 11 to 20 per cent of all labour contracts). Over the same period the practice of hiring workers via employment agencies to avoid the cost of potential sick pay also rose - from 4 to 9 per cent (SCP 1996).

### **Social assistance**

The social assistance scheme (ABW), implemented in 1965, introduced state-financed minimum income protection into the Dutch social security system. Functioning as a last resort safety net, ABW was means-tested and, in order to tailor benefits to individual circumstances, a complicated set of national benefit rates evolved over the years. These differed according to a claimant's labour market opportunities, household composition, age, and cause of neediness. With the onset of economic crisis in the 1970s the number of beneficiaries rose rapidly (from some 300,000 in 1970 to as many as 740,000 in 1986, Table 1). Subsequently beneficiary numbers began to fall, but not as rapidly as they had increased. This partly reflected the impact of the reform of the insurance schemes, which created extra demand for assistance (reassessed disabled workers, widows born after 1950, the unemployed whose insurance benefit had expired). But it also reflected the very limited labour market chances of social assistance clientele.

In the early 1990s, revelations of alarming figures on the abuse and misuse of social assistance led to a parliamentary inquiry into the structure and administration of the scheme. The resulting report contained various critiques, the most important of which were that the system had become too complex and was consequently inefficient, that there was too little control of cohabitation and the real costs of living, that local differences in the cost



of living were not recognised in benefit payments and that the administration made too little effort to (re-)integrate its clients into the labour market (TK 93/94).

In 1996, social assistance was radically revised to meet these criticisms. Firstly, the system of benefit rates was simplified into three rates, with single people receiving 50 per cent of the minimum wage, single parents seventy and couples a 100 per cent. Single people and single parents could also apply for a 20 per cent supplement, in which case they have to prove that the basic rate is too low for their particular circumstances as singles. The onus for proving 'single' status was shifted to the claimant rather than the administration as in the past. Young people under twenty-one could only claim in exceptional cases: if in need, the principle is that they have to accept a job within the Youth Work Guarantee Scheme.

Secondly, to gear benefits more effectively to local and personal circumstances, the administering municipalities were obliged to design and implement an 'assistance supplements policy', specifying the rules under which beneficiaries can claim supplements to their basic benefit (such as subsidies for training or education, costs related to part-time work, special needs etc.). Thirdly, beneficiaries have to be 'activated' to participate in the labour market. This policy has been implemented in different ways. Since 1996, every claimant has the duty to find a job, the only exception being those over fifty-seven and a half and single parents with children under five. The standard of 'suitable work' has been broadened, with clients expected to accept jobs 'beneath' their educational and previous job levels. Liaising closely with the district labour office the administration is obliged to design and implement an individual plan for (re-)insertion for each client with a reasonable chance on the labour market.

Finally, the new scheme recognizes that nearly half of social assistance claimants have little real chance of finding direct paid employment. To encourage the able-bodied unemployed and prevent social isolation, the municipalities have been given powers to establish 'social activation' programmes whereby clients can be released from the obligation to look for a paid job for a certain period if they undertake voluntary or community work. In short, the restructuring of ABW has heightened municipal responsibility and discretion and led to an increasing emphasis on getting people (back) into work.

## Conclusions

The Dutch system of social security expanded rapidly after the Second World War as protection against life cycle and social risks developed along the two main lines of collectivisation and solidification. The first meant separate social insurance funds, organized locally or within sectors of industry, were merged into national funds, and existing schemes covering diverse risks were harmonized and ultimately replaced by one uniform, national scheme. The second meant entitlement conditions were extended to cover broader groups of workers and citizens, bad risks were not excluded, and contributions levied according to financial capacity not differences in actuarial risk. These principles, implemented in the 1950s and 1960s, created large scale horizontal solidarity (good risks paying for bad), as well as vertical solidarity (higher earners paying for lower incomes). To ensure effective functioning participation was made compulsory for all the actors involved.

However, the economic recession of the late 1970s and early 1980s forced a thorough reconstruction of the system. Partly as an explicit aim, but certainly as an overall result of the measures taken, it has taken on a much more selective character. This is manifest not only in the introduction of means testing in the old age and the survivors' schemes (AOW, ANW) but in the restricted entitlement and coverage of the survivors', unemployment and disability schemes and the increased role of means-tested social assistance, whose clientele now includes young widows, reassessed disabled workers and unemployed flexi-workers. Overall the likelihood of dependency on means-tested social assistance rather than non means-tested insurance benefits has increased for every beneficiary under the age of 65.

Restructuring has thus undermined the old relations of solidarity and the system's collectivist base. Cuts in coverage, benefit levels and the duration of benefit payments, and privatisation have led to increased individual responsibility for all the actors involved. Employers, for instance, have new responsibilities for sick pay and the prevention of disability, while workers and citizens in general are less protected by the state. The devolution of social assistance policy to local government means the system has also lost part of its collectivist character. All in all, a shift has taken place away from inclusive solidarity to more exclusive selectivity and from collective responsibility to individual responsibility.

The overall decline in citizen's social protection, however, has not affected everybody to the same degree. In some instances trade union pressure has persuaded employing organisations to

'repair' the gap by providing occupational benefits. This applies particularly to disability where many employers have agreed to supplement flat rate benefits under the new state scheme by up to 70 per cent of an individual's previous wage. Indeed such agreements have plugged the 'WAO-gap' for nearly 80 per cent of the workforce. Offsetting other losses through collective bargaining, however, has been confined to far smaller sectors of the working population, primarily those in higher paid, permanent jobs with continuous work histories. Perhaps more significantly, the loss of collective social protection has also been compensated at the household level as a result of the increased labour market participation of women. The accompanying rise in dual income households means that the misfortunes of one partner can be compensated by the other's earnings.

Clearly, however, those who have lost most social protection are people with weaker or no ties to the market for paid labour and whose households often include more than one 'non-earner'. These include workers on flexible contracts, the young, those with repeated unemployment spells, and groups who have little chance of gaining employment, such as pensioners, disabled workers, the long term unemployed and single parents.

The overall effects of the restructuring of the last two decades has, however, been recognized by the present central government, inspiring it to declare 'work, work, and again work' (a popular slogan often used by Prime Minister Kok and his cabinet members) as the central aim of its socio-economic policy. It sees social protection of citizens as best guaranteed by their labour market participation. In this respect two opposing views are regularly expressed in the Dutch media. The pessimistic view, held primarily by anti-poverty lobbyists and the 'strong left', contends that ongoing rises in labour productivity resulting from international competition and technological development mean that Dutch society will never again need its full labour force to produce its wealth. High levels of economic 'inactivity' are, in this view, a structural feature of future society, leading to problems of how to organize social participation, inclusion and (re-) distribution of wealth by means other than the labour market. The optimistic view, upheld by the political middle and right, however, holds that demographic trends are such that within the next twenty years, The Netherlands will have a serious labour shortage as post-war 'baby boomers' retire and give way to much smaller birth cohorts.

We will have to wait and see what happens. At present, for the first time in many years, Dutch political parties are again competing publicly with each other on their 'positive social image' rather than proposals for reducing social expenditure. Whether

this portends a real break with the recent history of a retrenching welfare state, or is just a manifestation of the fact that 1998 is an election year remains to be seen.

### Notes

(1). This chapter is an updated summary of the principal arguments contained in a book I co-authored. It is entitled *Solidair of Selectief? Een evaluatie van toepassing van het selectieve-marktmodel in de sociale zekerheid* ('Solidary or Selective? An evaluation of applying the selective-market-model in social security') by Wim van Oorschot, Cees Boos and Louis Geleijnse, published in 1996 by Kluwer, Deventer, The Netherlands

(2) The key abbreviations used in this discussion are as follows:

<b>AAW</b>	Algemene Arbeidsongeschiktheidswet <i>General Disability Act</i>
<b>ABW</b>	Algemene Bijstandswet <i>General Social Assistance Act</i>
<b>AKW</b>	Algemene Kinderbijslag <i>General Child Benefit Act</i>
<b>ANW</b>	Algemene Nabestaanden Wet <i>General Survivors' Benefit Act</i>
<b>AOW</b>	Algemene Ouderdomswet <i>General Old Age Benefit Act</i>
<b>AWW</b>	Algemene Weduwen en Wezen Wet <i>General Widows and Orphans Benefit Act</i>
<b>PEMBA</b>	Premie-differentiatie en Marktwerving in de Arbeidsongeschiktheidsverzekering <i>Act on Premium differentiation and Market Competition in the Disability Insurances</i>
<b>RWW</b>	Rijksgroepsregeling Werkloze Werknemers <i>Social Assistance for Unemployed Workers</i>
<b>SZW</b>	Ministerie van Sociale Zaken en Werkgelegenheid <i>Ministry of Social Affairs and Employment</i>
<b>TAV</b>	Wet Terugdringing Arbeidsongeschiktheids Volume <i>Act on Reducing the Disability Volume</i>
<b>TBA</b>	Wet Terugdringing Beroep op de Arbeidsongeschiktheidsverzekering <i>Act on Reducing Disability Claims</i>
<b>TK</b>	Handelingen der Tweede Kamer <i>Minutes of Parliament</i>
<b>TZ</b>	Wet Terugdringing Ziekteverzuim <i>Act on Reducing Sickness Absence</i>

<b>WAO</b>	Wet op de Arbeidsongeschiktheidsverzekering <i>Act on Disability Insurance</i>
<b>WULBZ</b>	Wet Uitbreiding Loondoorbetalingsverplichting bij Ziekte <i>Act on Extension of Obligation to Pay Wages in Case of Sickness</i>
<b>WW</b>	Werkloosheidswet <i>Unemployment Act</i>
<b>ZW</b>	Ziektewet <i>Sickness Act</i>
<b>WRR</b>	Wetenschappelijke Raad voor het Regeringsbeleid <i>Scientific Council for Government Policy</i>

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